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Financial Planning for Long-Term Care

Will you need help managing the personal tasks of your daily life? Whether you ask a Magic 8 Ball or consult the data, signs point to yes. While there are many ways to pay for your long-term care, what’s most important is to be sure you are making an educated financial decision.

Long-term care typically refers to support that is required for an individual to perform the regular activities of daily living, such as dressing and bathing, due to a medical or mental condition. According to data from the Department of Health and Human Services (DHHS), [70 percent of Americans today](#) will require some type of long-term care, and the average person will pay roughly [\\$138,000 for their long-term care](#). Public programs and insurance will cover about half of these costs, but one in six people will still pay more than \$100,000 out of pocket for long-term care expenses.

Almost everyone will qualify for Medicare coverage, and most people assume that it will cover all their health needs. But the truth is that Medicare covers health issues a person could possibly recover from or manage the severity of, like a broken bone, diabetes, or cancer. Medicare does not cover long-term care for permanent physical or mental limitations. In those cases, the individual is responsible for payment using their own resources. Another option is to purchase long-term care insurance.

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2020 estimate: \$7,756/month	2020 estimate: \$8,821/month
2030 estimate: \$10,423/month	2030 estimate: \$11,855/month
2040 estimate: \$14,008/month	2040 estimate: \$15,932/month

Sources: [2020 Cost of Care Survey](#), Genworth Financial

What Types of Long-Term Care Exist?

There are three types of long-term care. All three types can be provided at home or in a dedicated facility, such as an assisted living center or continuing-care retirement center.

The first and most-used type of long-term care is *custodial care*. With custodial care, you receive help with daily living activities like eating, dressing, bathing, or getting around town. Custodial care is generally considered to be non-medical in nature. It can be provided by unpaid family caregivers or can be part of a paid service provided by home health workers or nurse aides.

One step up from custodial care is *intermediate care*. This is the term for health care that is provided by a skilled professional at regular intervals but usually on an infrequent basis. One example is weekly rehabilitative services.

The third type, called *skilled care*, involves 24-hour professional health care. Although many people associate skilled care with nursing homes, it may be provided at your own home, in an assisted living facility, in a hospital, or in other locations.

[DHHS data](#) shows that the average American will need three years of long-term care, including one year of paid care in-home and one year in a healthcare facility. Whether you plan to age in place or move to a retirement community, planning for the cost of your long-term care should be part of your larger financial plan.

How Will You Pay for It?

Medicare provides healthcare benefits for medical needs, including a percentage of some types of intermediate care and skilled care. It does not cover custodial care—the type of long-term health care that most individuals will need—even if a paid professional provides that care.

Medicaid, which is often confused with Medicare, is a joint federal and state healthcare program open to people with limited income and assets. Medicaid covers some long-term care but provides only limited coverage, and because of the income limit, the majority of Americans do not qualify for this program.

That means most people have two true options to fund their long-term care: pay out of pocket or buy long-term care insurance.

Is Self-Insurance a Good Option?

Paying out of pocket—also called self-insurance—is the most common way to pay for long-term care expenses. Self-insurance gives you the freedom and flexibility of full control over your long-term care decisions without having to consider what is covered or not covered by your insurance policy. When choosing this option, it's important to understand the rising costs of long-term care and be sure you are making an intentional decision as part of your financial plan.

According to data from [Genworth Financial](#):

- **Home health aides** currently cost \$4,576 per month on average but may increase to \$6,150 per month by 2030.
- **Adult day care** currently costs \$1,603 per month on average but may increase to \$2,154 per month by 2030.
- **Assisted living** currently costs \$4,300 per month on average but may increase to \$5,779 per month by 2030.

Note that the cost of long-term care will vary depending on the level of care you need and your location. You'll find the least expensive long-term care in the country in Louisiana, West Virginia, Missouri, and Oklahoma. [The most expensive markets for long-term care](#) are in Connecticut, Alaska, New York, and New Jersey. The average cost of a private room in a nursing home in the Bridgeport-Stamford-Norwalk area of Connecticut, for instance, is nearly \$160,000 a year. Equivalent care in Baton Rouge, Louisiana will cost around \$57,000.

If you choose to self-insure, you'll want to be confident that you have sufficient assets to pay the costs of care, no matter what. You may need to reallocate liquid assets, and you may face corresponding tax consequences. A financial advisor can help you plan and prepare for these moves.

What is Long-Term Care Insurance?

Long-term care insurance (LTCI) is specifically designed to pay for long-term healthcare in settings like nursing homes or in your own home. Essentially, LTCI enables you to transfer a portion of the financial liability of long-term care to an insurance company in exchange for regular premiums. But policies vary widely, so it is important to know what you want and choose a policy that aligns with your needs.

Most LTCI policies cover all three levels of care—custodial, intermediate, and skilled—so long as you are receiving them in a licensed nursing home. Some policies will limit or exclude additional settings, like home health care. Generally, long-term care insurance will also cover adult day-care centers, respite care, and other forms of health care provided by licensed and registered professionals, like physical therapists and nurses.

Comprehensive policies are more likely to cover home care services and assisted living, but also come with a heftier premium. Some comprehensive policies will cover the cost of personal care consultants and caregiver training for a family member or friend.

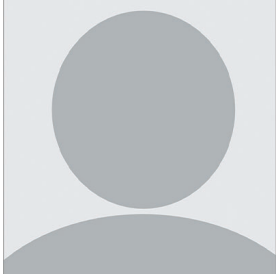
Before you can use your benefits, insurance companies typically require that you meet certain physical, social, or mental conditions. For example, you may need to provide proof that you can no longer independently perform regular daily activities, like bathing or dressing. All these requirements will be explained in your policy documents at enrollment.

According to 2020 data from the [American Association for Long-Term Care Insurance](#), the average long-term care insurance premium for a 55-year-old couple was \$3,050 a month. Single males of the same age paid \$1,700 a month, and single, 55-year-old females paid \$2,650 a month. But prices for virtually identical insurance policies varied from \$3,000 to \$6,300 a month, which is why it's important to do your research and make an informed decision. You might also consider working with an insurance professional who can help you compare multiple insurers and policies.

One benefit to LTCI is that it may help you minimize the financial impact of an extreme medical event or condition. As part of your financial plan, LTCI may be a piece of portfolio risk management or estate and legacy planning.

While there is no one-size-fits-all answer or obvious net-worth threshold that makes one option better than the other, there is a clear first step. Talk with your financial advisor about your needs, concerns, and desires. Having a plan in place will help you evaluate potential scenarios, stress-test your choices, and feel confident in your long-term care decisions.

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